KING RADIO CORPORATION ANNUAL REPORT 1981

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REGISTRAR AND TRANSFER AGENT:
United Missouri Bank of Kansas City, N.A.
Stock Transfer Department
P.O. Box 226
Kansas City, Missouri 64141

Stock Listed on the American Stock Exchange

Counsel: Spencer, Fane, Britt & Browne,
Kansas City, Missouri

Auditors: Arthur Andersen & Co.

ANNUAL MEETING

The annual meeting of the shareholders will be held at the offices of the Company, 400 North Rogers Road, Olathe, Kansas, on Thursday, April 22, 1982 at 2:00 p.m.

This report contains information intended for our shareholders. It is not issued as a prospectus in respect of any securities and it is not issued in connection with any offer or solicitation to buy or sell any securities.

Single copies of the Company's annual report to the Securities and Exchange Commission on Form 10-K (without exhibits) will be furnished free of charge after March 31, 1982, upon written request directed to the Secretary, King Radio Corporation, 400 North Rogers Road, Olathe, Kansas 66062.

Cover photograph, courtesy of Beech Aircraft Corporation

DESCRIPTION OF THE BUSINESS

King Radio Corporation designs, manufactures and sells electronic communication, navigation and flight control systems, including: communication transceivers, navigation receivers and indicators, distance measuring equipment, automatic direction finders, autopilots, flight directors, airborne radiotelephones, air traffic control transponders, compass systems and weather radar systems. These systems, consisting of some 30 basic product categories, are designed and sold for installation in general aviation, commercial and military aircraft.

The Company's general aviation products, designated "Silver Crown," are used primarily in single-engine and light to medium twin-engine aircraft; and those designated "Gold Crown" are used primarily in higher priced twin-engine aircraft, including turboprops and business jets. The Company currently sells five products to commercial airlines.

The total number of persons employed by the Company in 1981 averaged approximately 3,000.

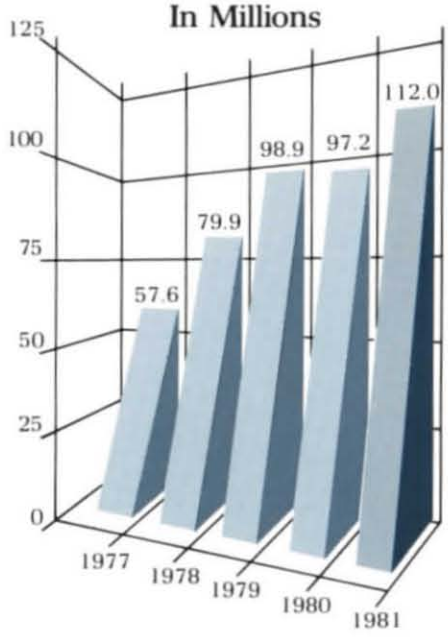
MARKET AND DIVIDEND INFORMATION

The principal market on which the Company's common stock is traded is the American Stock Exchange. Quarterly price ranges on that Exchange and dividends per share were:

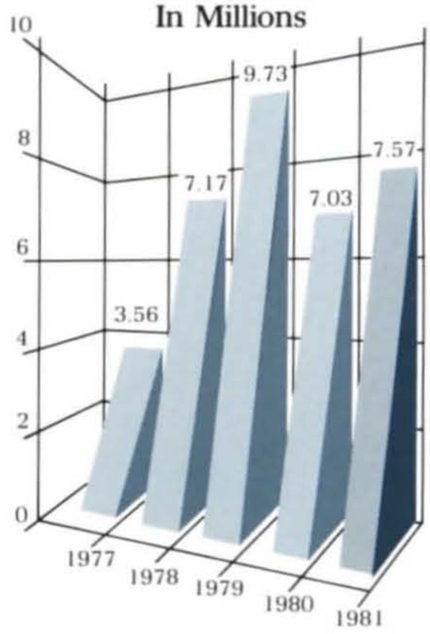
	1981		1980		Dividends Per Share	
Quarter	High	Low	High	Low	1981	1980
First	$27.63	$19.50	$32.63	$17.50	$.12	$.10
Second	31.50	24.75	23.13	15.63	.12	.10
Third	32.00	21.50	25.75	18.75	.12	.10
Fourth	27.50	20.50	27.38	19.00	.15	.12

As of March 5, 1982 there were approximately 1,339 holders of record of the Company's common stock.

Sales In Millions

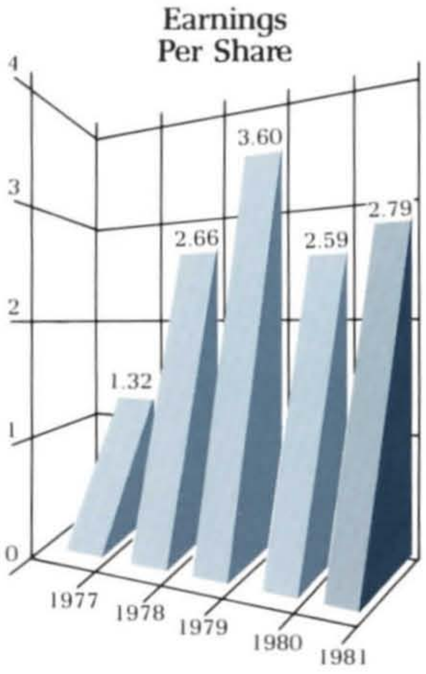


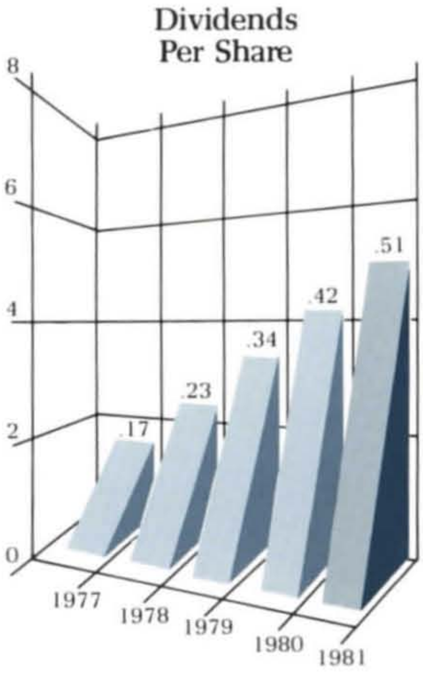
Net Income In Millions

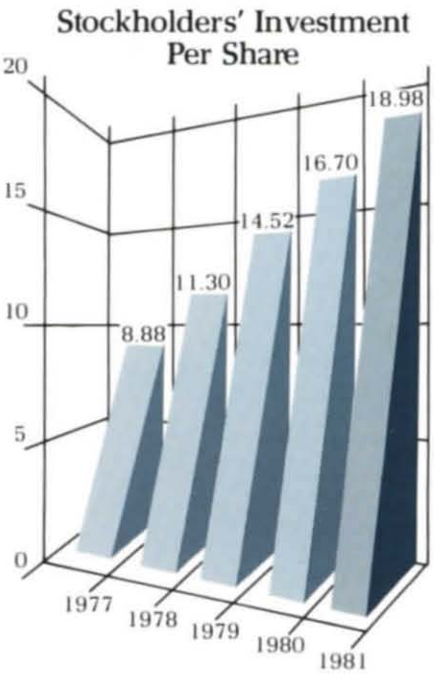


COMPARATIVE HIGHLIGHTS

	1981	1980	1979
Net Sales	$111,968,710	$97,208,224	$98,872,569
Net Income	7,574,053	7,034,528	9,728,032
Earnings Per Share	2.79	2.59	3.60
Cash Dividends Per Share	.51	.42	.34
Research, Development and Engineering	10,286,835	8,639,557	7,171,506
Capital Expenditures	9,655,661	3,893,756	5,862,652
Depreciation and Amortization	3,000,110	2,655,889	2,131,946
At Year End			
Working Capital	$37,810,441	$37,863,596	$31,279,140
Total Assets	73,626,227	63,479,251	58,049,636
Stockholders' Investment	51,478,441	45,287,622	39,392,228
Book Value Per Share	18.98	16.70	14.52
Number of Shares Outstanding	2,712,224	2,712,224	2,712,224







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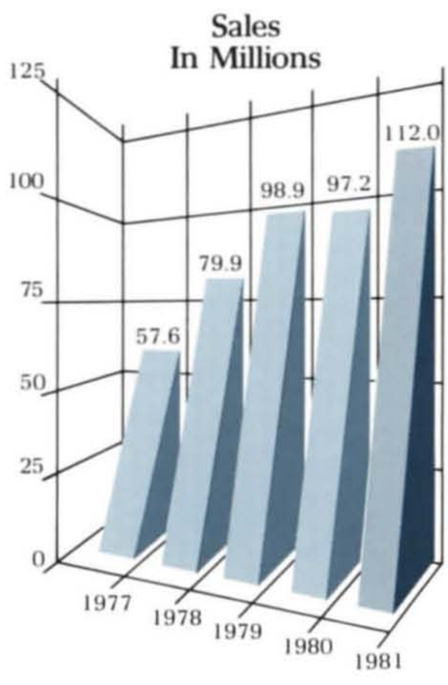

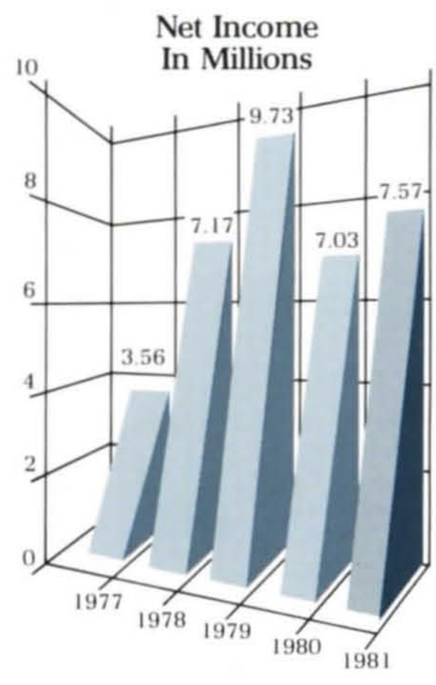

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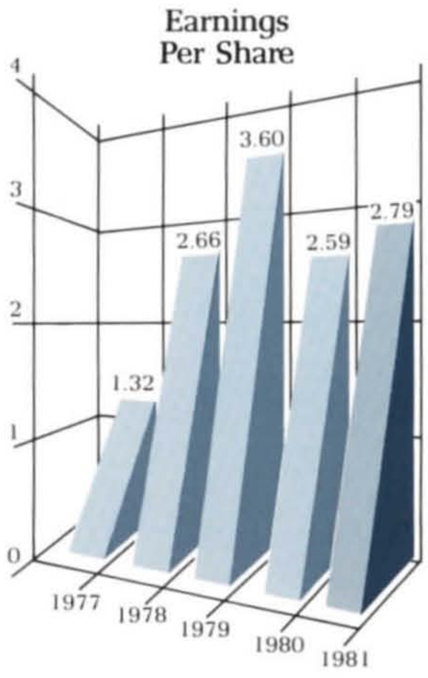
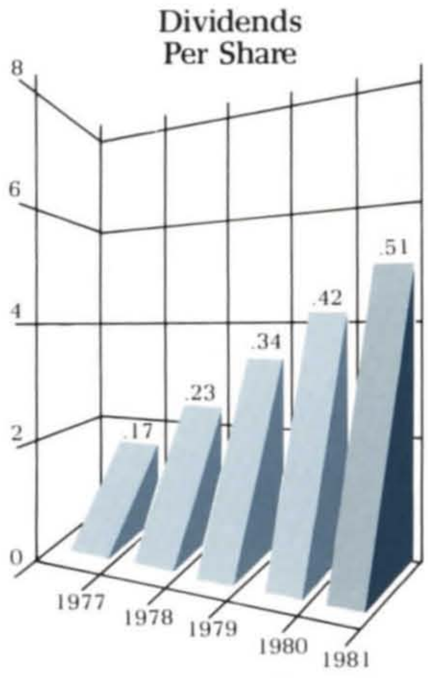
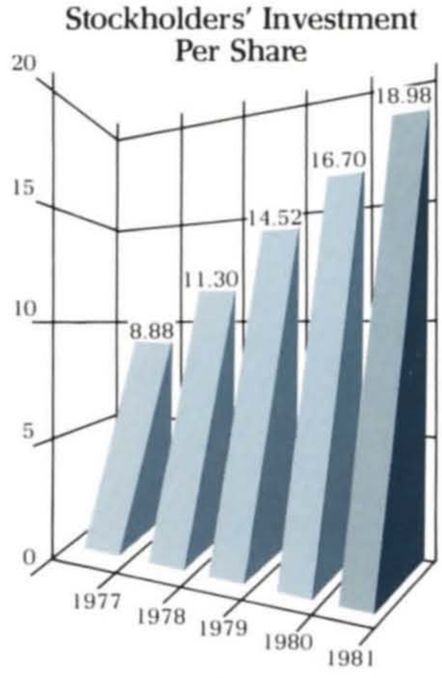






TO OUR STOCKHOLDERS:

We are pleased to report that the Company set a new sales record in 1981. Sales increased 15% to $111,969,000 from 1980 sales of $97,208,000. International sales decreased about 6% to $22,498,000, whereas domestic sales increased 22% to $89,471,000.

The record sales volume was achieved despite depressed conditions that existed in the Company's principal market area, the general aviation industry. The number of new general aviation aircraft has declined each year since the peak of approximately 17,800 units in 1978. The 1979 decline of less than 5% to 17,000 units was followed by a sharp drop of 30% in 1980 to 11,877 units, and a further decline of 20% in 1981 to 9,457 units—just over one-half of the 1978 volume and much more severe than the much discussed drop in new car production. Depressed overseas economies resulted in an even more dramatic drop in aircraft exports with export sales off 36% in 1981, approximately 43% below the peak of nearly 4,000 units exported in 1979.

Although some portion of the sales increase is due to higher prices, the Company believes the major portion of the increase is attributable to its heavy emphasis on new product development and aggressive marketing approach, which have resulted in a continuous flow of new products and a strong market position.

Net income increased approximately 8% in 1981 to $7,574,000, compared to 1980 net income of $7,035,000. With the same number of shares outstanding in both years, earnings per share also increased 8% to $2.79 in 1981 compared to $2.59 in 1980.

Although conditions in the general aviation industry are currently depressed, we remain optimistic on its long-term growth prospects because we believe the basic need for general aviation products will continue to increase to satisfy transportation requirements that result from decreasing airline service and increasing industrial decentralization. To position ourselves to participate in the expected future growth of the industry, expenditures for research and development were increased again in 1981 to $10,287,000 (9.19% of sales) from $8,640,000 (8.89% of sales) in 1980.

Several new products were introduced during 1981 that had been in development during previous years. Most notable among these products was "third generation" Gold Crown equipment which we expect will, during its product life, increase our market share in turboprop and jet aircraft where it is typically used.

Also introduced in 1981 was the KX 155/165 NAV/COMM which completed the major units of the digital Silver Crown product line, and make it a more competitive system in both operational features and price.

Another significant product introduction was the KWX 56 color weather radar. This "third generation" weather radar's operational features and competitive pricing make it extremely attractive for use in piston twin and light turboprop aircraft.

Products scheduled for introduction in 1982 include a lightweight autopilot for single engine and light twin aircraft, and a digital, all solid-state transponder to complete the digital Silver Crown product line. Both of these products should increase market penetration in the single engine and light twin areas.

Our first marine product, an HF/SSB communication transceiver, is scheduled for introduction in April, 1982. Considerable effort has been expended to establish the marketing organization for distribution of this product and other marine products we expect to develop in the future. In addition, we formed King Marine Radio Corporation, a wholly owned subsidiary headquartered in Florida, late in 1981, to market imported products to the marine electronics market. It is anticipated that, ultimately, all marine products will be marketed through this organization.

Our efforts to penetrate the government avionics field resulted in sales of approximately $4 million in 1981, compared to $2 million in 1980. Business in this market area typically has a long gestation period and we expect considerably higher sales in future years.

All expenditures for plant and equipment, which were unusually large in 1981, were financed from internally generated funds. Of the $9,656,000 spent for the year, approximately $4,000,000 was applicable to construction of a new 192,000 square foot building adjacent to the main plant in Olathe which was completed in September. The Company also installed in 1981 a large engineering/manufacturing oriented computer complex to begin implementation of the latest Computer-Aided Design and Manufacturing system (CAD/CAM). CAD/CAM is, we believe, essential for us to maintain our lead in product design in an industry where control of development costs and speed with which an organization can respond to changed market direction is mandatory for growth. Expenditures for plant and equipment are expected to return to a more normal level in 1982.

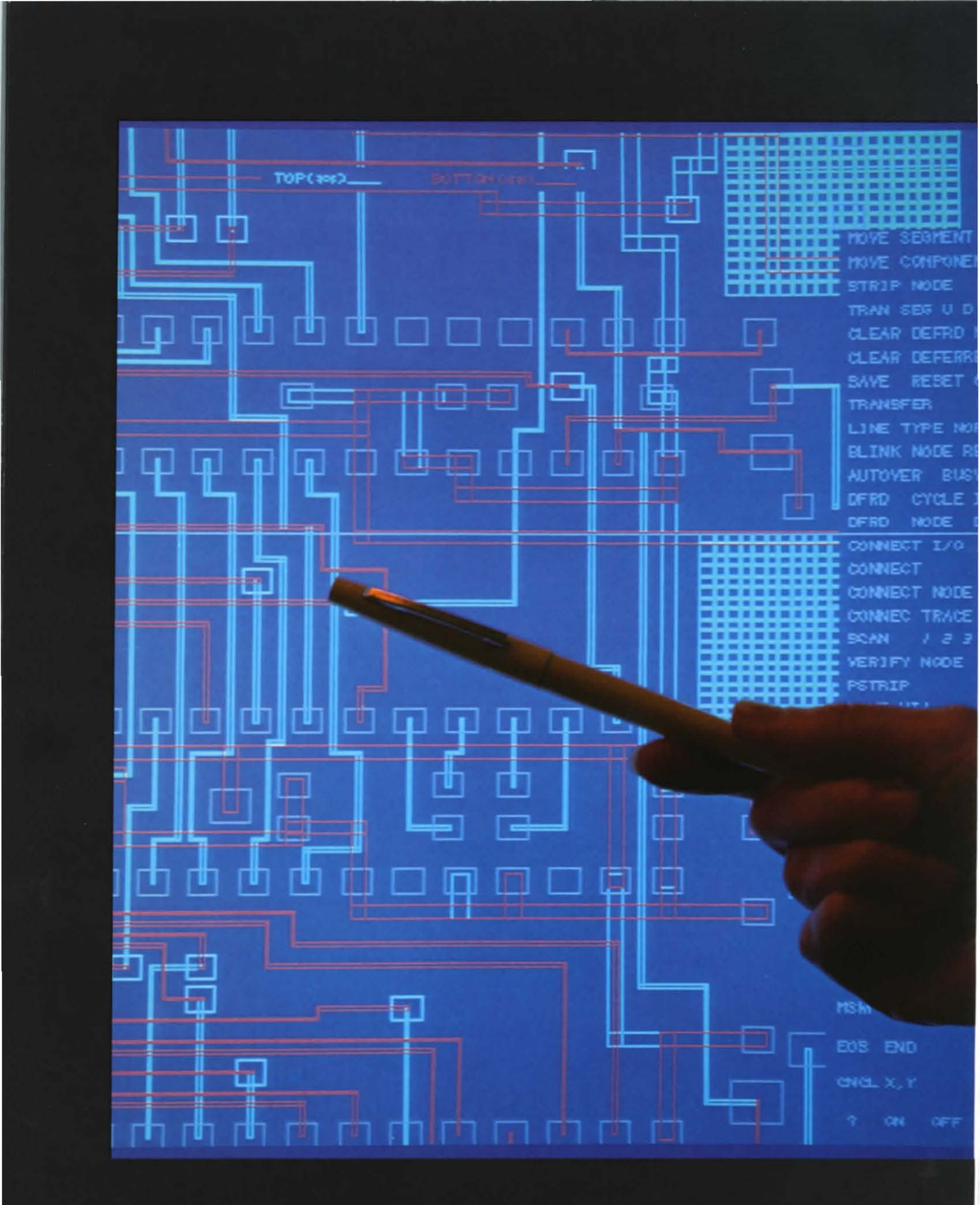
At its December meeting, the Board of Directors elected Peter B. Pond a director to fill a vacancy that has existed since the death of Morris Goldstein in 1980. Mr. Pond is a Senior Vice-President of the Investment Banking firm of Smith Barney, Harris Upham & Company and is the head of Smith Barney's corporate finance efforts for the mid-west.

Commencing with the dividend paid January 22, 1982, the Board of Directors has increased the quarterly dividend rate from twelve cents (12¢) to fifteen cents (15¢) per share. Cash dividends of fifty-one cents (51¢) per share were declared in 1981, compared with forty-two cents (42¢) in 1980.

We appreciate the support of our employees, stockholders and customers which enabled us to progress in 1981 in spite of very difficult economic conditions in the United States and many parts of the world.

Robert T. Cox
President

Edward J. King, Jr.
Chairman of the Board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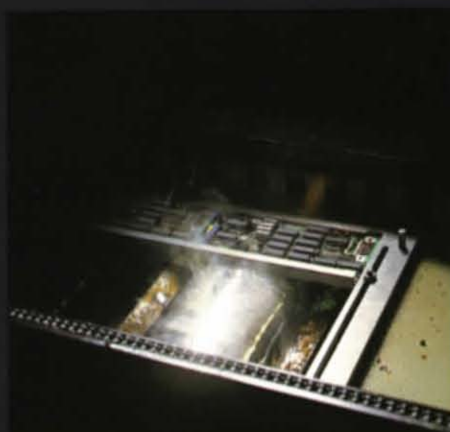


PROGRESS UPDATE

For the aviation world, the year 1981 will be recounted as one of unforgettable highs and lows:

The space shuttle went up. Interest rates went up. Air traffic controllers went from the picket line to the unemployment line. Federal taxes were cut. Fuel prices stabilized. And slumping general aviation aircraft sales figures continued their downward trend.

All in all, it was quite an interesting year.

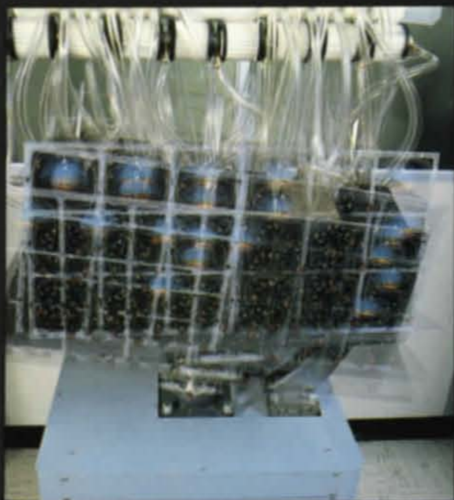
But for those in the avionics business, it will be remembered as a year of tough competition to retain or increase market share and sales volume in the diminishing number of airframes produced.

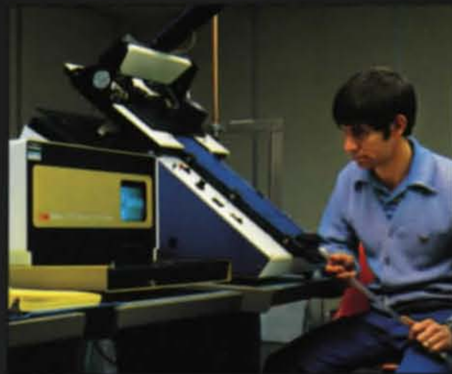
In this effort, King Radio Corporation was reasonably successful—achieving modest gains in both sales and earnings.

Beyond this, however, the Company continued to lay the groundwork for future growth and ability to respond as market conditions improve. By following through on planned investments in new facilities, new markets and new products, the Company prepared itself to capitalize on a broader base of opportunities in the months and years ahead.

On the pages which follow, some of the more significant of these new investments are highlighted.


KING





NEW FACILITIES

Perhaps the most visible evidence of King Radio's continuing growth can be viewed at the Company's main plant complex in Olathe, Kansas.

There, a new 192,000 square foot addition has recently been completed and is now being put into use.

The new addition will house facilities for receiving and shipping, purchasing, incoming parts inspection and computerized inventory warehousing, electro-chemical finishing (including state-of-the-art waste treatment), painting and decorating, plastics molding, machine shops and other ancillary functions in support of both engineering and manufacturing.

At the same time, the new area will allow for much needed expansion of the Company's administrative, marketing and engineering departments within the original plant space. Over 60,000 square feet will be devoted to engineering and engineering support functions alone.

Company officials estimate that, with this latest expansion in facilities (now totalling nearly 600,000 square feet in five plants), it should be possible to accommodate nearly a doubling of current production volume within the factory space available.

Also contributing to future production increases will be a number of new equipment installations completed during the past year.

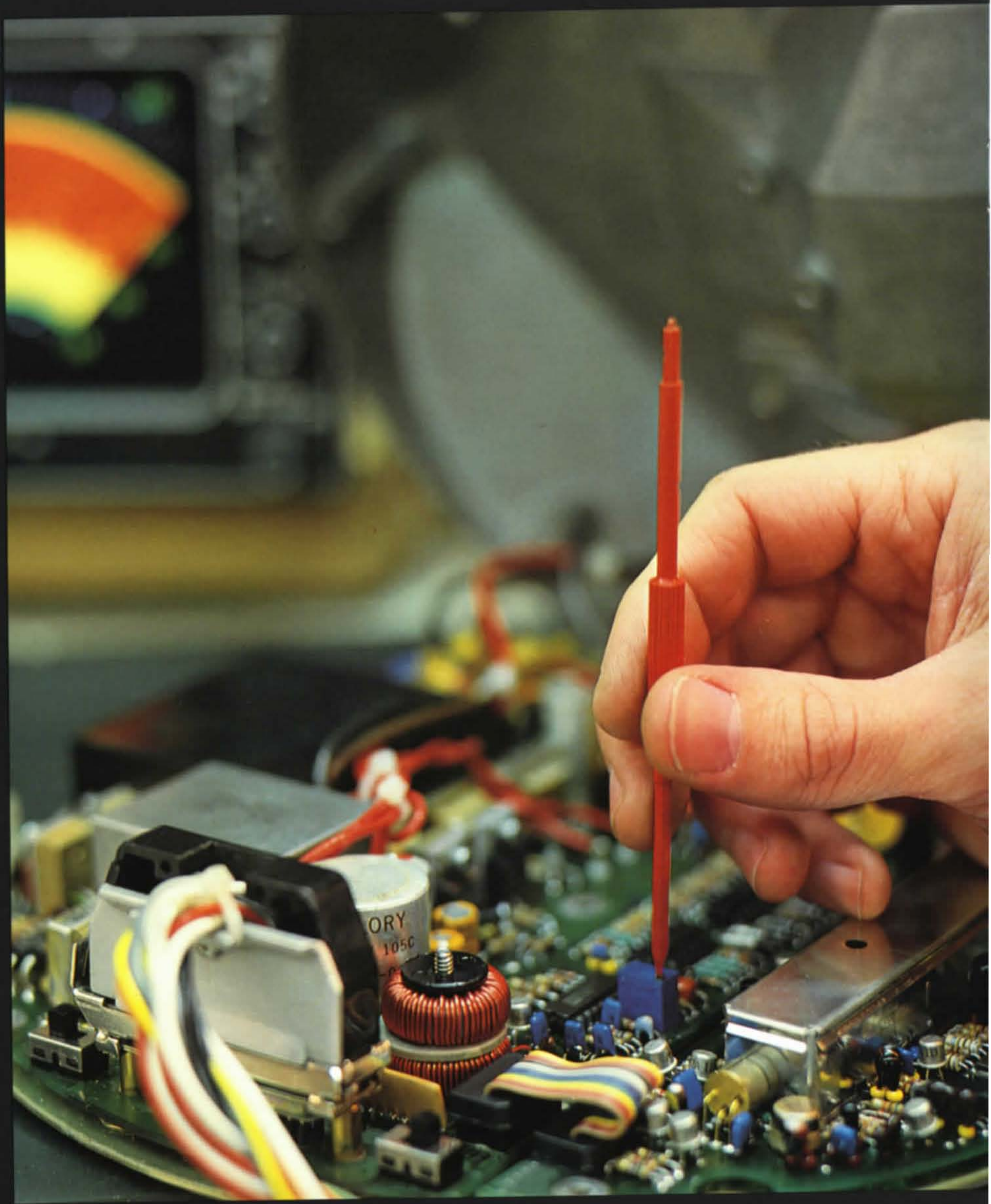
In engineering, new large-format graphic computers (CAD/CAM) will assist in the design of circuit boards, schematics and mechanical components.

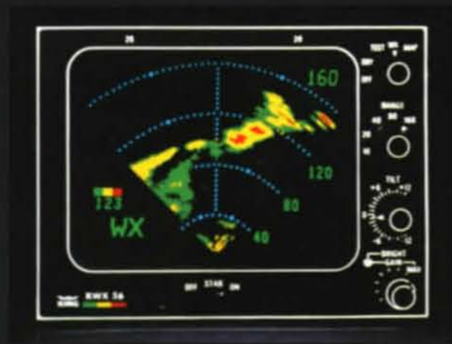
Incoming inspection of vendor-supplied circuits and components has been enhanced by the addition of automatic component test machines, capable of performing a full test sequence on up to 6,000 integrated circuits or other components per hour.

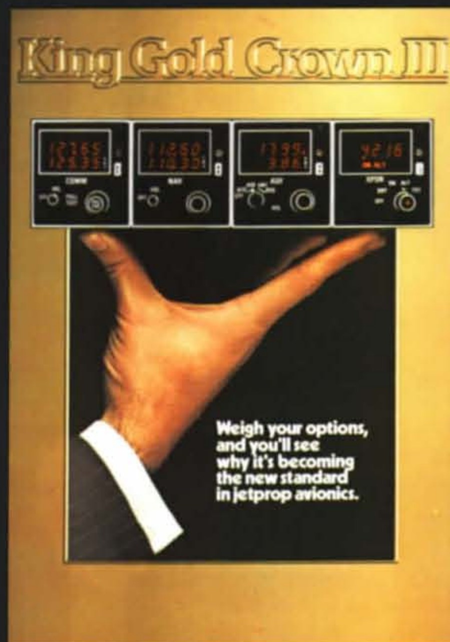
The first two of six planned new state-of-the-art automatic "in-circuit" test systems have recently been installed, with the remaining systems scheduled for receipt during 1982.

At the production level, new automatic integrated circuit insertion equipment is being brought on-line to provide greater efficiency and consistency in the assembly of certain high-volume products.

And, finally, to help the Company keep pace with the growing demand for its autopilot and flight control products, recent investments in precision gyro manufacturing equipment have made it possible for King to begin delivery of two additional gyro products, thereby consolidating manufacture of all of its flight control gyro products in-house.







NEW PRODUCTS

No doubt the most encouraging product news for King Radio in 1981 was the successful introduction and industry acceptance of the new generation of Gold Crown III line of remote-mounted avionics equipment.

Designed primarily for top-of-the-line corporate class twins, turboprops and turbine helicopters (thus far, the most recession-proof segment of the aircraft market), the new Gold Crown III systems were officially unveiled at mid-year to very enthusiastic industry reviews.

Incorporating the latest advances in custom LSI and microprocessor technology, the new Gold Crown III remote units (including Navigation, Communication, Automatic Direction Finder, Distance Measuring Equipment, and Transponder systems) are over 40 percent smaller and 30 percent lighter than previous Gold Crown designs.

Thus, not only is Gold Crown III considerably more space- and weight-efficient than the leading competitive equipment, but thanks to the fact that it is also the industry's first completely all solid-state system, it is potentially more reliable as well.

Initial sales response has been most reassuring, and further gains are anticipated as pilots become more familiar with the equipment and its capabilities.

For similar reasons, King management is also encouraged by the interest being shown in the Company's newest weather radar: the KWX 56.

It represents the first moderately priced digital color radar to offer the advantages of automatic pitch and roll stabilization.

Priced thousands of dollars less than other competitive stabilized radars, the new KWX 56 can be used with inputs from most panel-mounted 2-axis autopilot vertical gyros to provide a straight-and-level scan of the weather in spite of changes in aircraft pitch and roll attitude.

As a result, the pilot is able to maneuver his aircraft in and around weather build-ups without losing sight of important radar targets.

Its attractive price, combined with its innovative features, should make the KWX 56 an entry to watch in the radar market for 1982.

Meanwhile King's digital Silver Crown line continues to increase its share of the panel-mounted avionics market—thanks, in part, to the growing acceptance of the KX 155 and KX 165 NAV/COMM units which were introduced early in the year.

These digital radios are both all solid-state designs with electronic tuning for 720 COMM channels and 200 NAV channels, plus interchangeable "active" and "standby" frequencies for both the NAV and COMM displays. In addition, the KX 165 version incorporates a unique digital "radial" feature that provides the pilot with an instant readout of his position in relation to a selected VORTAC ground navigation station.

Comprising the last major components needed to fill out the digital Silver Crown line, the KX 155 and KX 165 should help sustain King's competitive edge in this market for the foreseeable future.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SYSTEM
KING RADIO CORPORATION
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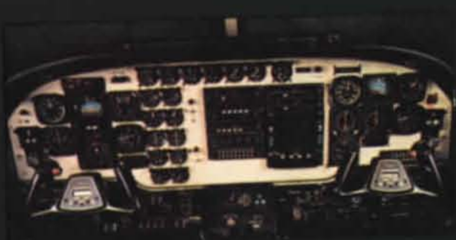

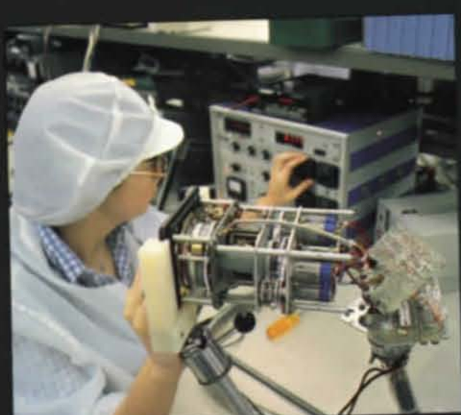

NEW MARKETS

The Company's momentum in exploring and developing new markets increased significantly during 1981.

The Special Programs Department, for example, continued to pursue and administer various government and military contracts, as well as coordinate the Company's involvement in joint research and development projects.

Out of these efforts have already come a number of successful projects, primarily in the area of adapting or modifying current King products to fulfill specialized military requirements.

At the Company's Johnson County Industrial Airport facility (opened in June of 1980), an ongoing retrofit program to equip U.S. Army U-21 jetprop aircraft with complete installations of King's digital Silver Crown avionics and the KFC 250 Automatic Flight Control system grew well beyond original expectations.

Over 30 U-21's have been upgraded thus far, with more in process, and additional programs of this type are already forthcoming.

At the same time, the Company intends to keep moving forward with its plans to build a market in the marine electronics field. Initial response to King's first marine product, the KMC 95 HF/SSB long-range communications transceiver, has been encouraging; a qualified marine marketing team is now in place; and recruitment of a broad-based dealer network is proceeding on schedule. By Spring of 1982, the introductory groundwork should be completed, and delivery of this first marine product will have begun.

SELECTED FINANCIAL DATA

	Year Ended				
	December 26, 1981 (52 Weeks)	December 27, 1980 (52 Weeks)	December 29, 1979 (52 Weeks)	December 30, 1978 (52 Weeks)	December 31, 1977 (53 Weeks)
SUMMARY OF OPERATIONS	(Thousands of Dollars except per share amounts)				
Sales	$111,969	$97,208	$98,873	$79,877	$57,584
Cost of sales	76,837	67,071	64,749	53,321	40,977
Operating expenses	22,306	17,750	15,747	12,599	10,219
Interest expense	424	287	117	115	60
Income taxes	5,900	6,500	9,050	7,000	3,140
Income before cumulative effect of accounting change	7,574	7,035	9,728	7,167	3,301
Cumulative effect of accounting change (Note 1)	—	—	—	—	255
Net income	7,574	7,035	9,728	7,167	3,556
Net income % to sales	6.76%	7.24%	9.84%	8.97%	6.18%
Net income % to beginning of year net worth	16.72%	17.86%	31.90%	29.96%	17.09%
Per share data (Note 2)					
Income before cumulative effect of accounting change	$ 2.79	$ 2.59	$ 3.60	$ 2.66	$ 1.23
Cumulative effect of accounting change (Note 1)	—	—	—	—	.09
Net income	2.79	2.59	3.60	2.66	1.32
Cash dividends	.51	.42	.34	.23	.17
BALANCE SHEET DATA					
Current assets	$ 52,522	$48,999	$44,812	$36,825	$26,124
Current liabilities	14,711	11,135	13,533	13,158	8,639
Ratio of current assets to current liabilities	3.57	4.40	3.31	2.80	3.02
Total assets	73,626	63,479	58,050	46,425	34,060
Working capital	37,811	37,864	31,279	23,667	17,485
Property, plant and equipment, net after depreciation	20,661	14,006	12,799	8,951	7,585
Short-term debt	170	165	165	160	50
Long-term debt	4,125	4,295	3,060	1,225	285
Stockholders' investment	51,478	45,288	39,392	30,492	23,920
Stockholders' investment per share (Note 2)	18.98	16.70	14.52	11.30	8.88
Average number of shares outstanding (in thousands) (Note 2)	2,712	2,712	2,704	2,696	2,694

(1) In 1977, the Company began including in inventory the cost of certain materials previously included as an element of overhead cost applied to inventory. The cumulative effect of this change in accounting, made to comply with requirements of the Internal Revenue Service, was to increase income for 1977 by $255,000 (9¢ per share).
(2) Data for years prior to 1979 has been adjusted for the 3-for-2 stock split effective in 1979.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Results Of Operations

1980 Compared to 1979

The level of economic activity in the general aviation industry dropped sharply in 1980, as evidenced by a 30% decrease in unit shipments of new general aviation aircraft to 11,877 compared to approximately 17,000 units in 1979.

The Company was able to partially offset the effects of the depressed industry conditions with increased market penetration and price increases, and experienced a relatively small decrease in sales of less than 2% to $97,208,000 in 1980 from the previous record sales of $98,873,000 set in 1979.

The decline in sales, together with rapidly increasing costs due to inflation, caused the gross profit margin to decrease to 31% of sales in 1980 from 34.5% in 1979.

The Company's management believes that its success is largely attributable to its emphasis on new product development, and that a sizeable portion of each sales dollar should be allocated to develop products that will benefit future sales and earnings. Research and development projects were expanded in 1980 which, together with higher costs due to inflation, resulted in a 20% increase in expenditures to $8,640,000 (8.89% of sales) from $7,172,000 (7.25% of sales) in 1979.

Primarily due to inflation, selling, general and administrative expenses increased approximately 6% in 1980 and amounted to 9.37% of sales compared to 8.67% in 1979.

Interest expense increased to $287,000 in 1980 from $117,000 in 1979 because of additional debt in the form of Industrial Revenue Bonds issued to finance the construction of new facilities.

Other income increased in 1980 because of increased interest earned on short-term investments and additional royalties and fees received from foreign manufacturers with whom the Company has licensing agreements.

The provision for income taxes was approximately 48% of pre-tax income for both years.

1981 Compared to 1980

The decline in the general aviation industry that prevailed in 1980 continued in 1981. New aircraft shipments amounted to 9,457 units, a decrease of 20% from the 11,877 shipped in 1980. Despite this decline in the industry, the combined effect of new product introductions and aggressive marketing enabled the Company to increase its market penetration which, together with price increases, resulted in record 1981 sales of $111,969,000, an increase of 15% over 1980 sales of $97,208,000.

Production costs increased at approximately the same rate as sales volume and, accordingly, the gross profit margin improved only slightly to 31.4% in 1981 compared to 31% in 1980.

As in 1980, the Company's research and development efforts were expanded in 1981 and became more costly because of inflation, resulting in a 19% increase in expenditures to $10,287,000 from $8,640,000 the preceding year.

Selling, general and administrative expenses claimed 10.73% of each 1981 sales dollar compared to 9.37% in 1980, because of expanded advertising and sales promotion efforts and the effect of inflation on practically every area of expense.

The increase in interest expense in 1981 resulted principally from an increase in the average outstanding balance of Industrial Revenue Bonds, and interest assessed on additional income taxes imposed by the Internal Revenue Service for the years 1978 and 1979.

The 1981 decrease in other income was primarily due to decreased royalties and fees from foreign manufacturers with whom the Company has licensing agreements.

The 1981 changes in the Federal tax laws, particularly the credit for certain categories of incremental expenditures for research and development, together with investment credits on the relatively heavy investment in plant and equipment, caused the provision for income taxes to decrease to 44% of pre-tax income in 1981 compared to 48% in 1980.

Financial Condition and Liquidity

At December 27, 1980 the Company had working capital of $37,864,000 or 60% of total assets. Primarily because of unusually large capital expenditures of $9,656,000 in 1981, including approximately $4,000,000 for the new building in Olathe, working capital decreased $53,000 to $37,811,000, or 51% of total assets, at the end of the year.

In recent years, expansion of the Company's business has been financed with internally generated funds, together with the proceeds of the sale of Industrial Revenue Bonds issued by various jurisdictions in connection with the construction or acquisition of additional facilities. At December 26, 1981 the total outstanding principal amount of such bonds, which represent the Company's only debt, was $4,295,000.

The Company has no formal lines of credit or other borrowing arrangements with its banks. However, considering the presently strong working capital position and relatively nominal debt, management believes the Company's resources are adequate to meet its current capital expenditure and liquidity needs.

Inflation And Changes In Price

The major portion of the Company's revenue is derived from the sale of proprietary products at competitively established standard catalog prices.

In recent years, the Company has experienced generally rising material, labor and other costs. To the extent possible, the Company has endeavored to hold price increases to a minimum, and to offset increased costs with additional sales volume.

In 1981, sales volume increased 15% compared to 1980. The Company estimates that price increases accounted for approximately 5% of its 1981 sales increase.

The Company uses the FIFO method of accounting for its inventories. In a period of rapidly escalating costs, this method results in understating the cost of products sold with a corresponding overstatement of income. Management has considered the advantages and disadvantages of changing to the LIFO method of accounting for its inventories, but no final decision has been made.

Depreciation charges are calculated, as required by generally accepted accounting principles, based on historical costs and are less than if they were based on current replacement costs. Aggregate current cost depreciation charges over the life of the asset often may not equal the amount needed to replace existing assets with similar assets.

King Radio Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEET

December 26, 1981 and December 27, 1980

Assets	1981	1980
CURRENT ASSETS:		
Cash	$ 2,505,702	$ 1,132,572
Certificates of deposit	—	8,000,000
Receivables, less reserve of $100,000 in 1981 and $150,000 in 1980 for doubtful accounts	13,482,581	11,677,544
Inventories, at lower of cost (first-in, first-out) or market (Note 1)	32,313,478	25,713,896
Deferred and refundable income tax benefit (Note 2)	3,844,547	2,015,500
Prepaid expenses	375,280	459,074
Total current assets	$52,521,588	$48,998,586
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 1 and 3):		
Land	$ 599,272	$ 599,272
Buildings and improvements	11,182,372	7,190,631
Machinery and equipment	23,675,502	18,171,110
Aircraft and automobiles	1,049,061	1,024,353
Furniture and fixtures	507,672	446,819
	$37,013,879	$27,432,185
Less—Accumulated depreciation	16,352,760	13,426,617
	$20,661,119	$14,005,568
OTHER ASSETS	443,520	475,097
	$73,626,227	$63,479,251

The accompanying notes are an integral part of this balance sheet.

Liabilities

	1981	1980
CURRENT LIABILITIES:		
Current maturities of capitalized leases	$ 170,000	$ 165,000
Accounts payable	7,262,858	4,555,446
Dividends payable	406,834	325,467
Accrued liabilities—		
Profit sharing, payroll and vacation	2,381,208	1,893,868
Federal and state income taxes (Note 2)	—	259,641
Warranties	3,999,000	3,501,000
Other	491,247	434,568
Total current liabilities	$14,711,147	$11,134,990
DEFERRED INCOME TAXES (Note 2)	3,000,000	2,450,000
CAPITALIZED LEASE OBLIGATIONS (Note 3)	4,125,000	4,295,000
DEFERRED INCOME	311,639	311,639
CONTINGENCIES (Note 5)		
STOCKHOLDERS' INVESTMENT (Note 4):		
Preferred stock, no par value— Authorized 100,000 shares	$ —	$ —
Common stock, par value $.30 per share— Authorized 4,000,000 shares Issued 2,712,224 in 1981 and 1980	813,667	813,667
Capital surplus	3,452,223	3,452,223
Retained earnings	47,212,551	41,021,732
	$51,478,441	$45,287,622
	$73,626,227	$63,479,251

King Radio Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

for the three years ended December 26, 1981

	December 26, 1981	December 27, 1980	December 29, 1979
NET SALES	$111,968,710	$97,208,224	$98,872,569
COST OF SALES	76,837,433	67,071,007	64,749,344
Gross profit	$ 35,131,277	$30,137,217	$34,123,225
OPERATING EXPENSES:			
Research, development and engineering	$ 10,286,835	$ 8,639,557	$ 7,171,506
Selling, general and administrative	12,019,202	9,110,133	8,575,455
	$ 22,306,037	$17,749,690	$15,746,961
Income from operations	$ 12,825,240	$12,387,527	$18,376,264
OTHER INCOME (EXPENSE):			
Interest expense	$ (423,903)	$ (287,169)	$ (117,213)
Other income, net (Note 7)	1,072,716	1,434,170	518,981
	$ 648,813	$ 1,147,001	$ 401,768
Income before provision for taxes on income	$ 13,474,053	$13,534,528	$18,778,032
PROVISION FOR TAXES ON INCOME (Note 2):			
Currently payable	$ 5,830,000	$ 6,364,000	$ 8,841,000
Timing differences	70,000	136,000	209,000
	$ 5,900,000	$ 6,500,000	$ 9,050,000
NET INCOME	$ 7,574,053	$ 7,034,528	$ 9,728,032
EARNINGS PER COMMON SHARE (Note 1)	$2.79	$2.59	$3.60

The accompanying notes are an integral part of this statement.

King Radio Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the three years ended December 26, 1981

	December 26, 1981	December 27, 1980	December 29, 1979
WORKING CAPITAL WAS PROVIDED BY:			
Net income	$ 7,574,053	$ 7,034,528	$ 9,728,032
Charges to income not requiring working capital—			
Depreciation and amortization	3,000,110	2,540,725	2,014,325
Amortization of patent licenses	—	115,164	117,621
Increase in deferred income taxes	550,000	385,000	515,000
Working capital provided from operations	$11,124,163	$10,075,417	$12,374,978
Capitalized lease obligation	—	1,400,000	2,000,000
Decrease in other assets	31,577	306,929	92,678
Proceeds from stock options exercised	—	—	92,044
Working capital provided	$11,155,740	$11,782,346	$14,559,700
WORKING CAPITAL WAS APPLIED TO:			
Purchase of property, plant and equipment, net	$ 9,655,661	$ 3,893,756	$ 5,862,652
Cash dividends	1,383,234	1,139,134	919,719
Current maturities of capitalized leases	170,000	165,000	165,000
Working capital applied	$11,208,895	$ 5,197,890	$ 6,947,371
(DECREASE) INCREASE IN WORKING CAPITAL	$ (53,155)	$ 6,584,456	$ 7,612,329
(DECREASE) INCREASE IN WORKING CAPITAL FROM CHANGE IN:			
Cash	$ 1,373,130	$ 376,413	$ (286,523)
Certificates of deposit	(8,000,000)	1,500,000	5,000,000
Receivables	1,805,037	(1,244,610)	545,756
Inventories	6,599,582	3,243,609	2,184,431
Deferred income tax benefit	1,829,047	249,000	306,500
Prepaid expenses	(83,794)	62,626	235,969
Current maturities of capitalized leases	(5,000)	—	(5,000)
Accounts payable	(2,707,412)	17,941	(1,132,015)
Dividends payable	(81,367)	(54,245)	(88,374)
Accrued liabilities—			
Profit sharing, payroll and vacation	(487,340)	827,076	(709,410)
Federal and state income taxes	259,641	1,695,829	2,037,234
Warranties	(498,000)	32,000	(613,000)
Other	(56,679)	(121,183)	136,761
(DECREASE) INCREASE IN WORKING CAPITAL	$ (53,155)	$ 6,584,456	$ 7,612,329

The accompanying notes are an integral part of this statement.

King Radio Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' INVESTMENT

for the three years ended December 26, 1981

	Common Stock		Capital	Retained
	Shares	Amount	Surplus	Earnings
BALANCE, DECEMBER 30, 1978	2,697,299	$809,190	$3,364,656	$26,318,025
ADD (DEDUCT):				
Net income	—	—	—	9,728,032
Cash dividends, $.34 per share	—	—	—	(919,719)
Stock options exercised	14,925	4,477	87,567	—
BALANCE, DECEMBER 29, 1979	2,712,224	$813,667	$3,452,223.	$35,126,338
ADD (DEDUCT):				
Net income	—	—	—	7,034,528
Cash dividends, $.42 per share	—	—	—	(1,139,134)
BALANCE, DECEMBER 27, 1980	2,712,224	$813,667	$3,452,223	$41,021,732
ADD (DEDUCT):				
Net income	—	—	—	7,574,053
Cash dividends, $.51 per share	—	—	—	(1,383,234)
BALANCE, DECEMBER 26, 1981	2,712,224	$813,667	$3,452,223	$47,212,551

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF ACCOUNTING POLICIES:

(a) Principles of Consolidation—
The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

(b) Reporting Period—
The Company has adopted a 52-53 week fiscal year which ends on the last Saturday in December.

(c) Property, Plant and Equipment—
Depreciation is computed using primarily the straight-line method for financial reporting and accelerated methods for tax purposes. Lives used for the major items are as follows:

Buildings	30 years
Building improvements and fixtures	10 years
Machinery and equipment	2 to 8 years
Aircraft and automobiles	3 to 8 years

(d) Earnings Per Common Share—
Earnings per common share are based upon the weighted average number of shares outstanding of 2,712,224 in 1981 and 1980, and 2,703,519 in 1979.

(e) Inventories—
It is not practicable for the Company to maintain accounting records by major classes of inventories. Based upon management's knowledge of the production cycles and inventory turnover, the approximate amounts of inventory including cost of materials, labor and overhead by class used in the determination of cost of sales in the accompanying consolidated statement of income are shown below:

	Year Ended			
	Dec. 26, 1981	Dec. 27, 1980	Dec. 29, 1979	Dec. 30, 1978
Raw materials and purchased parts	$14,094,528	$11,543,557	$ 9,830,861	$ 8,738,383
Work in process	11,399,273	9,669,611	9,521,702	8,366,043
Finished goods	6,819,677	4,500,728	3,117,724	3,181,430
Total	$32,313,478	$25,713,896	$22,470,287	$20,285,856

(2) INCOME TAXES:

Deferred income taxes and the deferred income tax benefit have been recorded to reflect the tax effect of timing differences in the recognition of revenues and expenses for financial and tax reporting purposes, as follows:

	1981	1980	1979
DISC income	$240,000	$305,000	$438,000
Tax depreciation in excess of book depreciation	301,000	80,000	77,500
Warranty and inventory costs not currently deductible (classified current)	(471,000)	(249,000)	(306,500)
	$ 70,000	$136,000	$209,000

Investment, jobs and research and development tax credits are recorded as a reduction of federal income taxes in the year the credits are utilized.

A reconciliation of the provision for taxes on income to the 46% statutory federal rate is as follows:

	1981	1980	1979
Taxes on income at statutory rate	$6,198,000	$6,226,000	$8,638,000
Surtax exemption	(19,250)	(19,250)	(19,250)
State income taxes, net of federal tax benefit	473,000	493,000	684,000
Investment, jobs and research and development tax credits	(717,000)	(206,000)	(267,000)
Other	(34,750)	6,250	14,250
	$5,900,000	$6,500,000	$9,050,000

(3) CAPITALIZED LEASE OBLIGATIONS:

Certain land and manufacturing plant facilities were financed by proceeds from sales of industrial revenue bonds in 1973, 1978, 1979 and 1980. These properties were leased back to the Company under net lease-purchase agreements and have been treated for financial statement and income tax purposes as though the properties were owned by the Company. Payments to be made by the Company are in amounts equal to the principal and interest payments due on the bonds. The 1973, 1978, 1979 and 1980 bond issues bear interest rates of 5.75%, 5% to 5.75%, 6.25% to 7.10% and 8.50% to 9.00%, respectively. The aggregate maturities by year are:

Year	Maturities
1982	$ 170,000
1983	175,000
1984	110,000
1985	260,000
1986	260,000
1987 and after	3,320,000
	$4,295,000

(4) STOCK OPTION PLAN:

The Company's officers and employees restricted stock option plan terminated in December 1979. During 1979, options for 14,925 shares were exercised at the price of $6.17.

The Board of Directors has approved a new incentive stock option plan which will expire in December 1991. The plan, which is subject to approval by the Company's stockholders, provides that a maximum of 200,000 shares could be optioned to selected employees. Options granted will be for 10 years at not less than market price of the stock at date of grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) CONTINGENCIES:

Effective January 1, 1978, the Company discontinued all wholesaler agreements. Subsequent to receiving notice of the Company's intention to terminate such agreements, three suits were filed against the Company by wholesalers alleging breach of the wholesaler agreements and violations of federal and state antitrust statutes by restraining trade, monopolizing the market and fixing prices. The suits seek damages of about $1,140,000 for breach of the wholesaler agreements, $2,300,000 for wrongful termination of the wholesaler agreements and in the overall prayers for relief, seek additional unspecified damages, treble damages, injunctive relief and attorneys' fees. In December 1979, the suits were amended to add a count alleging breach of fiduciary duty and praying for damages of $1,200,000. Company management and legal counsel are of the opinion that the Company has meritorious defenses to the lawsuits and it is their intention to defend the suits vigorously.

(6) EXPORT SALES AND MAJOR CUSTOMERS:

The Company's foreign sales are made through its wholly owned Domestic International Sales Corporation subsidiary. The following sales, operating income and identifiable foreign assets are applicable to the three years ended December 26, 1981:

	1981	1980	1979
Foreign sales	$22,498,000	$23,873,000	$22,796,000
Foreign sales as a percent of total sales	20%	25%	23%
Operating income from foreign sales	$2,703,000	$3,324,000	$4,325,000
Identifiable foreign assets (primarily receivables)	$4,790,000	$3,295,000	$4,265,000

The Company believes that foreign sales were as profitable, relatively, as sales in the United States.

All sales to customers outside the United States are subject to risks related to international trade and to political, economic and other factors which vary from country to country.

Sales to Piper Aircraft Corporation were $23,414,000 in 1981, $16,110,000 in 1980 and $18,883,000 in 1979, representing 21%, 17%, and 19% of consolidated sales for the respective years. Sales to Beech Aircraft Corporation were $13,878,000 in 1981, $9,161,000 in 1980 and $8,443,000 in 1979, representing 12%, 9% and 8% of consolidated sales for the respective years.

(7) OTHER INCOME:

The Company's other income consists of the following:

	For the Year Ended		
	Dec. 26, 1981	Dec. 27, 1980	Dec. 29, 1979
Interest income	$ 908,417	$ 825,804	$402,376
Royalty income	53,897	402,816	29,074
Miscellaneous	110,402	205,550	87,531
Total other income	$1,072,716	$1,434,170	$518,981

(8) SUPPLEMENTARY PROFIT AND LOSS INFORMATION:

	For the Year Ended		
	Dec. 26, 1981	Dec. 27, 1980	Dec. 29, 1979
Maintenance and repairs	$1,031,787	$ 766,254	$ 674,212
Depreciation and amortization	$3,000,110	$2,655,889	$2,131,946
Taxes, other than income—			
Payroll	$3,275,648	$2,628,380	$2,157,925
Other	714,773	467,289	387,845
	$3,990,421	$3,095,669	$2,545,770
Rents and royalties	$ 480,435	$ 356,661	$ 304,455
Advertising costs	$2,411,936	$1,639,756	$1,179,894

(9) UNAUDITED QUARTERLY FINANCIAL DATA:

(In thousands of dollars, except per share)

	Quarter Ended			
	1981			
	March	June	September	December
Net sales	$26,785	$29,118	$30,374	$25,692
Gross profit	$ 8,142	$ 9,186	$10,028	$ 7,775
Net income	$ 1,816	$ 2,078	$ 2,441	$ 1,239
Earnings per common share	$.67	$.77	$.90	$.45
	1980			
	March	June	September	December
Net sales	$25,104	$22,814	$24,932	$24,358
Gross profit	$ 8,017	$ 6,509	$ 8,102	$ 7,509
Net income	$ 1,924	$ 1,153	$ 2,091	$ 1,867
Earnings per common share	$.71	$.42	$.77	$.69
	1979			
	March	June	September	December
Net sales	$24,921	$25,036	$24,001	$24,915
Gross profit	$ 8,381	$ 8,519	$ 7,823	$ 9,400
Net income	$2,425	$2,347	$2,009	$2,947
Earnings per common share	$.90	$.87	$.74	$1.09

During the first three quarters of 1980, management established a general contingency reserve because of the general condition of the economy and current business conditions. This reserve was reversed and credited to income in the fourth quarter. The quarterly financial data for 1980 presented above has been restated to reflect the reversal of the reserve in the quarters in which the charges to income were made. The restatement increased net income and earnings per share $69,000 and $.03, respectively, for each of the first three quarters.

Net income and earnings per common share in the fourth quarter of 1979 were favorably affected by $489,000 and $.18, respectively, resulting from the physical inventory adjustment caused in part by the effects of inflation.

AUDITORS' REPORT

To the Stockholders of King Radio Corporation:

We have examined the consolidated balance sheet of KING RADIO CORPORATION (a Kansas corporation) AND SUBSIDIARIES as of December 26, 1981, and December 27, 1980, and the related consolidated statements of income, changes in financial position and stockholders' investment for each of the three years in the period ended December 26, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 5 to the consolidated financial statements, three former wholesalers filed suits against the Company claiming damages as a result of alleged breach of wholesaler agreements and violation of antitrust statutes. The Company is contesting these suits. The outcome of these suits is uncertain at this time.

In our opinion, subject to the effect of the matter referred to in the preceding paragraph, the financial statements referred to above present fairly the financial position of King Radio Corporation and Subsidiaries as of December 26, 1981, and December 27, 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 26, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Kansas City, Missouri,
January 29, 1982.

OFFICERS AND DIRECTORS

Officers

Edward J. King, Jr.
Chairman of the Board

Robert T. Cox
President

Gary Burrell
Vice President, Engineering

R. Craig Christie
Vice President, Marketing

Robert S. Dunn
Vice President, Operations

B. L. Glover, Jr.
Vice President
General Aviation Sales

Richard G. Johnson
Assistant Secretary

James Q. Kohler
Vice President, Materiel

James V. Stothard
Vice President
International Marketing

C. J. Weltsch
Vice President, Finance
and Treasurer

Robert P. Lyons
Secretary
Partner of Spencer, Fane
Britt & Browne (attorneys)

Directors

*Wayne S. Bonebright
President, Hisonic, Inc.
(Electronics Manufacturer)

R. Craig Christie
Vice President, Marketing

Robert T. Cox
President

Robert S. Dunn
Vice President, Operations

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Vice President and Staff
Executive, Control Systems,
Honeywell, Inc.
(Manufacturer and
Marketer of Control
Systems and Informational
Systems)

*Peter B. Pond
Senior Vice President
Smith Barney, Harris
Upham & Co.
(Investment Bankers)

C. J. Weltsch
Vice President, Finance
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*Member of Audit Committee

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